

COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON GOVERNMENT EFFICIENCY AND FINANCIAL MANAGEMENT
TODD RUSSELL PLATTS, CHAIRMAN



STATEMENT OF REP. TODD RUSSELL PLATTS
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We are pleased to be here in New York City today to conduct an important oversight hearing into strategic planning and resource allocation at the Securities and Exchange Commission.

I would like to take this opportunity to thank our Subcommittee's Ranking Member, Ed Towns, for his active participation in our efforts to ensure that the SEC is effectively regulating the mutual fund industry and for having us here today. We appreciate your hospitality, Mr. Towns, and we also appreciate the willingness of Pace University to serve as the host site for this field hearing.

We are here today because we believe Chairman William Donaldson and his senior staff at the Securities and Exchange Commission have made great strides toward making strategic planning a priority. However, there is more work to be done.

The Commission is responding to unprecedented challenges. We've seen corporate accounting scandals and illegal practices in the mutual fund industry, both of which have shaken the very foundation of our financial markets and undermined investor confidence. We've seen technological advances that have given more people access to investment vehicles and contributed to the globalization of our markets – conditions that have increased the SEC's workload exponentially. Further increasing the SEC's responsibilities, Congress enacted Sarbanes-Oxley, giving the Commission a significantly larger oversight role in corporate finance. Congress also recognized the need to transform the SEC and granted pay parity and hiring flexibility along with significant resources to hire new staff and update existing technology.

All these changes and challenges – whether good or bad – require a bold and creative strategic focus. The most important challenge today for the SEC will be responding effectively to the mutual fund crisis. The mutual fund industry is critical to the health of our economy. More than half of all U.S. households – 91 million people – are invested in mutual funds to the tune of \$7.5 trillion. If the SEC's goal is to protect the

maximum number of individual investors, effective regulation and enforcement of the mutual fund industry should be of the highest priority.

The SEC responded to this most recent crisis with aggressive rulemaking initiatives. Congress is considering several avenues to reform the industry. Regardless of which rules or laws are finally enacted, it is effective regulation and enforcement that will make the difference. This Subcommittee believes that this is accomplished, in part by effective strategic planning which directs resources where they will have the greatest impact.

The Subcommittee is grateful to Attorney General Eliot Spitzer for his work in prosecuting the perpetrators of the mutual fund scandals, and we are honored to have Mr. Spitzer here today to discuss his successful enforcement efforts.

Of course, prosecuting criminals is only one side of the equation – effective regulation is the other. The use of statistical modeling and data mining can greatly enhance regulatory efforts. One example is a recent study conducted by Dr. Morey, who will testify today about a method he developed to detect “window dressing” in bond funds. With the appropriate technology and staff with the right expertise, the SEC can be more proactive as it polices the mutual fund industry and looks out for investors every day.

With the right strategic focus as a blueprint, the new resources for technology and human resources can be put to use in the most effective manner. Oversight of strategic planning at the Commission has been a high priority for this Subcommittee. Our July 2003 hearing was encouraging, and we applaud the continuing joint efforts of Rick Hillman and his team at the General Accounting Office and the Office of the Executive Director, Jim McConnell. We are eager to see the fruits of your labor, and this hearing will provide a forum for an in-depth update on your progress.

We also have the benefit today of hearing from Mr. John Bogle, the founder of Vanguard Funds and a vocal advocate for improving the mutual fund industry.

I would like to thank each of our truly distinguished witnesses for being here today, and I look forward to hearing your testimony.

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